

Mailed: August 22, 2008

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Communications Division  
Program Management and Implementation Branch**

**RESOLUTION T-17160  
August 21, 2008**

**R E S O L U T I O N**

**Resolution T-17160. Approval of the California High Cost Fund-B Administrative Committee Expense Budget for Fiscal Year 2009-10 (July 1, 2009 through June 30, 2010) to Comply with the Requirements of Public Utilities Code Section 273 (a).**

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**Summary**

This resolution adopts an expense budget of \$51.515 million for Fiscal Year (FY) 2009-10 for the California High Cost Fund-B (CHCF-B) program.

**Background**

The CHCF-B program was established in 1996 pursuant to Public Utilities (PU) Code § 739.3. This program provides universal service subsidy support in the high cost areas of AT&T California, Verizon of California, SureWest Telephone, Frontier Communications of California, and new carriers that become Carriers of Last Resort (COLR), and is funded by a surcharge assessed on consumers' intrastate telecommunications services.

PU Code § 739.3 requires the Commission to implement and maintain a program for universal telephone service support to reduce rate disparity in high cost areas. PU Code § 739.3 was amended in 1994 to extend the CHCF-B program until January 1, 2009.

In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). PU Code § 270(b) requires that monies in the CHCF-B and five other funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.

In June 2006, the Commission issued an Order Instituting Rulemaking (OIR) into the Review of the California High Cost Fund B Program (R.06-06-028). The purpose of the

OIR is to review the operation of the CHCF-B program to see if the goals of the program could be met while reducing costs. Interested parties filed comments.

In September 2007, the Commission issued an interim decision (D.) 07-09-020 in R.06-06-028 which adopts major reforms to the CHCF-B program to reduce the size of the CHCF-B, and to better target the support to cover only those “high cost” areas where funding is necessary to meet universal service goals. More importantly, the COLRs would be allowed full pricing flexibility, allowing for basic service rates to increase from the current subsidized rate toward cost based rates.

In this interim decision, the Commission ordered the following changes:

- Reduction of the CHCF-B surcharge from 1.3% to 0.5% effective January 1, 2008.
- Increasing the threshold benchmark at which the COLRs are subsidized from the CHCF-B from \$20.30 to \$36.00 through series of steps beginning January 1, 2008 and ending July 1, 2009.
- Changing the method of calculation of the subsidy payment from the difference between cost and revenue to the difference between cost and the threshold level of \$36.00 effective July 1, 2009.
- Setting forth a schedule of reform measures to be considered in Phase II of the proceeding including: (1) a reverse auction mechanism to determine future subsidy levels and (2) establishing a new fund to subsidize broadband deployment in unserved and underserved areas of California.

Subsequently, D.07-12-054 revised the surcharge to 0.25% from 0.50% for the CHCF-B program and initiated a 0.25% surcharge to fund the newly established California Advanced Services Fund (CASF) program effective January 1, 2008.

The funding of the CHCF-B program is scheduled to sunset on January 1, 2009. However, pending legislation (Senate Bill 780 sponsored by Senator Wiggins), if enacted, would extend the sunset date of the CHCF-B program.

## **Discussion**

The Communications Division (CD) estimated the CHCF-B program budget of \$51.515 million by using the benchmark threshold changes adopted in D.07-09-020, the carrier’s estimates of expected claims<sup>1</sup> along with estimates from the Commission’s Fiscal Office for staff and administrative costs, inter-agency fees, banking charges, audits, and administrative committee costs. The budget estimate also includes an amount for contingencies and payments to SureWest Telephone Company (SureWest) to offset

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<sup>1</sup> Since the existing CHCF-B program may be extended by the Legislature, CD requested claims estimates from the eligible carriers for the entire fiscal year.

Extended Area Service (EAS) revenue that was lost.<sup>2</sup> Further, pursuant to D.07-09-002, the EAS payments to SureWest will be phased out over a period of five years.

Appendix A.1 displays the adopted FY 2008-09 and FY 2009-10 budgets for the CHCF-B program. The proposed 2009-10 CHCF-B program budget of \$51.515 million is significantly less than the 2008-09 adopted program budget of \$419.458 million presented in Appendix A.1. This budget decrease incorporates the previously discussed program changes adopted by the Commission by D.07-09-020, which increased the threshold benchmark from \$20.30 to \$36.00 over time.

The itemized costs for the FY 2009-10 budget are included in Appendix A.1 and are summarized in the table below:

Description	FY 2009-10 Proposed Budget (\$ million)	FY 2009-10 Adopted Budget (\$ million)
Program Costs	\$ 48.746	\$ 48.746
Committee Costs	\$ 0.008	\$ 0.008
All other Costs	\$ 2.761	\$ 2.761
Total Program Budget	\$ 51.515	\$ 51.515

On June 27, 2008, in compliance with Paragraph 4.a.1 of the CHCF-B Administrative Committee (AC) Charter, the Chairperson of the CHCF-B AC submitted, to the Director of CD, a letter supporting an expense budget for FY 2009-10 in the amount of \$ 51.515 million. The Chairperson's letter was submitted in his personal capacity following the June 24, 2008 CHCF-B AC meeting. Due to potential conflict of interest (COI) issues, the budget was not adopted by a quorum of the CHCF-B AC.<sup>3</sup> Notice of the chairperson's letter was published in the Commission's Daily Calendar on July 3, 2008.

In this Resolution, the Commission adopts the CHCF-B expense budget for FY 2009-10 in the amount of \$51.515 million.<sup>4</sup>

### **Notice/Protests**

Notice of the CHCF-B AC Chairperson's expense budget letter was published in the Commission's Daily Calendar on July 3, 2008. The Commission did not receive any protests or comments on this matter.

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<sup>2</sup> D.05-08-004 authorizes SureWest to continue receiving payments of \$11.5 million on an interim basis to offset lost EAS revenues. Subsequently, D.07-09-002 requires SureWest to reduce its CHCF-B draw for EAS purposes in a series of steps beginning January 1, 2007 and ending January 1, 2012. For FY 2009-10, the CHCF-B draw for EAS is \$5.1 million, which represents a \$2.04 million reduction from the FY 2008-09 draw of \$7.14 million.

<sup>3</sup> All CHCF-B AC members are required to conform to the requirements of Govt. Code § 1090 and "The Fair Political Practices Act". AC members may not participate in an activity where there is an actual or a perceived COI.

<sup>4</sup> This budget is based on the current program structure being applicable to FY 2009-10.

## Comments

In compliance with PU Code § 311 (g), a Notice of Availability was e-mailed on July 15, 2008 to the CHCF-B claimants, the CHCF-B AC members and alternates, and to parties on the service list of R.06-06-028 informing these parties that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov/> and is available for public comments. In addition, CD informed these parties of the subsequent availability of the conformed resolution, when adopted by the Commission, at the Commission's website as indicated above. No comments were received.

## Findings

1. Public Utilities Code (PU) Code § 739.3 requires the Commission to implement a program for universal service support to reduce rate disparity in high cost areas.
2. In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669.
3. PU Code § 270(b) requires that the monies in the California High Cost Fund-B (CHCF-B) Administrative Committee (AC) Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
4. In September 2007, D.07-09-020 ordered CHCF-B program changes which: increases the subsidy threshold from the then current \$20.30 to \$36.00 over time, reduces the CHCF-B surcharge from 1.3% to 0.5% effective January 1, 2008, and changes the method of calculation of the subsidy payment from the difference between cost and revenue to the difference between cost and the threshold level. In addition, the Commission stated that in Phase II of the proceeding, it wanted to develop and implement a reverse auction mechanism to determine future B-Fund subsidy levels.
5. In December 2007, D.07-12-054 further modified the surcharge to 0.25% from 0.50% for the CHCF-B program, and initiated a 0.25% surcharge to fund the newly established CASF program.
6. The authorizing legislation for the CHCF-B program, PU code § 739.3 is set to expire on January 1, 2009. SB 780, sponsored by Senator Wiggins, if passed and signed by the Governor, will extend the sunset date of the CHCF-B program.
7. On June 27, 2008, the CHCF-B AC submitted to the Commission a proposed fiscal year (FY) 2009-10 expense budget for the CHCF-B AC Fund of \$ 51.515 million. Due to potential conflict of interest issues, this budget was not adopted by a quorum of the CHCF-B AC.

8. The CHCF-B AC's proposed expense budget was noticed in the Commission's Daily Calendar of July 3, 2008.
9. Copies of the notice letter advising parties of the availability of this draft resolution and the conformed resolution, when adopted by the Commission on the Commission's web site were e-mailed to the CHCF-B claimants, the CHCF-B AC, and the parties on the service list of R.06-06-028 on July 15, 2008. No comments were received.
10. The proposed Expense Budget for the CHCF-B AC Fund for FY 2009-2010 of \$ 51.515 million, as set forth in Appendix A.1 of this resolution, is reasonable and should be adopted.

**THEREFORE, IT IS ORDERED that:**

1. The expense budget for the California High Cost Fund-B Administrative Committee Fund for Fiscal Year 2009-2010 of \$51.515 million, as set forth in Appendix A.1 of this resolution, is adopted.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 21, 2008. The following Commissioners approved it:

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/s/ Paul Clanon

PAUL CLANON  
Executive Director

MICHAEL R. PEEVEY  
President  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
TIMOTHY ALAN SIMON  
Commissioners

**APPENDIX A.1**  
**CALIFORNIA HIGH COST FUND B ADMINISTRATIVE COMMITTEE FUND**  
**PROGRAM BUDGETS**  
All Amounts in (\$000)

Program Expenses	July 2008 - June 2009	July 2009 - June 2010	July 2009 - June 2010
	Adopted per Res T-17103	Proposed	Adopted
a	b	c	d
<b>Expenses</b>			
<b>Program Costs</b>			
1 Carrier Claim Payments (Current) <sup>1</sup>	\$ 415,500	\$ 47,606	\$ 47,606
2 Carrier Claims for prior years			
3 Interest for Untimely Payments	\$ 1,000	\$ 1,000	\$ 1,000
4 Other Program Services			
5 Other Legislative Mandated Programs/Other Program Payments			
6 Audits	\$ 500	\$ 60	\$ 60
7 Banking Fees <sup>2</sup>	\$ 30	\$ 30	\$ 30
8 Data Processing Automation <sup>3</sup>	\$ 50	\$ 50	\$ 50
<b>Administrative Committee Costs <sup>4</sup></b>			
9 Administrative Committee-Per Diem	\$ 2	\$ 2	\$ 2
10 Administrative Committee-Travel and Others	\$ 4	\$ 4	\$ 4
11 Administrative Committee-Special Needs Accommodation and Teleconferencing	\$ 2	\$ 2	\$ 2
<b>PUC Staff and Admin Costs</b>			
12 Inter-Agency Fee <sup>5</sup>	\$ 1,840	\$ 2,124	\$ 2,124
13 CPUC Staff and Administrative Costs <sup>6</sup>	\$ 530	\$ 637	\$ 637
<b>14 Total Program Expenses</b>	<b>\$ 419,458</b>	<b>\$ 51,515</b>	<b>\$ 51,515</b>

**Notes**

1 Claim payments for FY 2009-10 are based on projections submitted by carriers in May 2008 and include Surewest EAS payments..

2 Based on estimated lockbox and other banking fees.

3 Based on estimated costs for SQL programming and maintaining the electronic filing and monitoring system.

4 Pursuant to D. 02-04-059, per diem and other costs are authorized for committee member attendance in the CHCF-B AC meeting.

It is assumed that there will be 4 meetings of the CHCF-B AC during FY 2009-10.

5 Based on estimate of pro-rata costs allocated to state service agencies, e. g. DGS, State Personnel Board, etc.

6 Based on personnel staff allocation estimate and program priorities for the five public purpose programs but only includes CHCF-B portion.